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VIA E-MAIL AND USPS

April 27, 2011

Board of Retirement
San Jose City Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Re: June 30, 2010 Retiree Medical and Dental Cash Funding Valuation Results

Dear Members of the Board:

In our report dated March 3, 2011, we provided the cash funding requirements for the 2011/2012 fiscal year based on the membership and financial information available as of June 30, 2010. In that report, the City and the member contribution rates for the Fire Department would only be sufficient to fund the benefit cashflows for the next 10 fiscal years, while the contribution rates for the Police Department would fully prefund the entire costs after a 5-year phase-in period. The Retirement Office has requested that we modify the contribution rates for the Fire Department to reflect an agreement reached in March 2011 to also fully prefund the entire cost for the Fire Department after a phase-in period.

Funding Policy – Prior to 2009/2010 Fiscal Year

Prior to the 2009/2010 fiscal year, the Board's funding policy was to determine employer and member contribution rates so that the City and the members would share in the funding of the projected retiree medical and dental benefit cashflows for the next 10 fiscal years. For the medical program, the City and the members shared equally in the projected cashflows not covered by current assets. For the dental program, the City paid 75% and the members paid 25% of the unfunded cashflows.

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Funding Policy - Police

For the Police Department, the 50%/50% and 75%/25% cost sharing between the employer and the members for the medical and dental programs respectively remain unchanged; however, effective with the 2009/2010⁽¹⁾ fiscal year, the policy for setting the employer and member contributions for the Police Department was amended so that those contribution rates would fully prefund the entire cost of the medical and dental programs after a phase-in period of 5 years. It is our understanding that the full prefunding rates should include an adjustment to reflect the additional cost associated with partial prefunding during the 5-year phase-in period.

It is our understanding that, for the Police Department, during the 5-year phase-in period the annual increases to the employer and the member contribution rates are limited to 1.35% and 1.25% of payroll, respectively, above the rates paid in the previous fiscal year. Also, if the employer and member rates are in excess of 11% and 10% of payroll, respectively, during or at the end of the phase-in period, the parties should meet and confer on how to address any retiree healthcare contributions above those two percentages.⁽²⁾ Such discussions should include alternatives to reduce retiree healthcare costs.

Funding Policy - Fire

For the Fire Department, the 50%/50% and 75%/25% cost sharing between the employer and the members for the medical and dental programs respectively remain unchanged. In addition, the contribution rates calculated to fund the benefit cashflows for the next 10 years remain in place for the 2009/2010 and 2010/2011 fiscal years. However, effective with the 2011/2012⁽³⁾ fiscal year, the policy for setting the employer and member contributions for the Fire Department was amended so that those contribution rates would fully prefund the entire cost of the medical and dental programs after a phase-in period of 5 years. It is our understanding that the full prefunding rates should include an adjustment to reflect the additional cost associated with partial prefunding during the 5-year phase-in period.

It is also our understanding that, for the Fire Department, during the 5-year phase-in period the annual increases to the employer and the member contribution rates are limited to 1.35% and 1.25% of payroll, respectively, above the rates paid in the previous fiscal year. Also, if the

⁽¹⁾ *The contribution rates developed in this valuation will be effective for the 2011/2012 fiscal year and should reflect the third year of the 5-year phase-in.*

⁽²⁾ *As we illustrated in item B of Exhibits VI and VII, we are projecting that the employer and the member rates would exceed the 11% and 10% levels, respectively, at the end of the phase-in period.*

⁽³⁾ *The contribution rates developed in this valuation will be effective for the 2011/2012 fiscal year and should reflect the first year of the 5-year phase-in.*

employer and member rates are in excess of 11% and 10% of payroll, respectively, during or at the end of the phase-in period, the parties should meet and confer on how to address any retiree healthcare contributions above those two percentages.⁽⁴⁾ Such discussions should include alternatives to reduce retiree healthcare costs.

It should also be noted that there is an implicit subsidy paid by the City for the pre-65 retirees because their medical premiums are in the same rating pool as the current active employees. For the purpose of determining the employer and member contribution rates in this report, we have continued to make the assumption that the cost of the implicit subsidy would be paid for entirely by the City on a pay-as-you-go basis and hence not included in the contribution rates in this report.

While there is no requirement to prefund the liabilities associated with the implicit subsidy, the disclosure of such liabilities is required under the Government Accounting Standards Board (GASB) Statements No. 43 and 45. The liabilities for the implicit subsidy together with the other liabilities for the health plan calculated using the GASB assumptions and procedures will be provided in a separate GASB 43/45 report.

Cashflows and Associated Contribution Rates

Funding Methodology

As separate asset shares for each of the Police and Fire Departments are provided by the Retirement Plan, the cash flows for the next 10 fiscal years as well as the full prefunding calculations are now done separately by Department.

As the Police Department has begun to phase in the full prefunding rates effective July 1, 2009, the asset shares included an adjustment made to reflect their higher level of contributions.

The Department of Retirement Services has provided us with two alternative asset allocations between the Police and the Fire Departments as of June 30, 2010. The asset amounts have been calculated using the two asset allocation methodologies to split the assets as of June 30, 2009 that were described in our letter dated January 19, 2011: "Contribution based method" and "Liability based method".

The amount of assets allocated to the Police and Fire Departments using the contribution based and liability based methods, adjusted to include the 5-year smoothed actuarial value of asset methodology and used in the June 30, 2010 valuation are provided in Exhibit I.

⁽⁴⁾ *As we illustrated in item B of Exhibits III and IV, we are projecting that the employer and the member rates would exceed the 11% and 10% levels, respectively, at the end of the phase-in period.*

For the 2011/2012 fiscal year, we have developed the contribution rates by first determining the contributions required for funding the cashflows for the next 10 fiscal years. This is similar to the methodology used in the last valuation to determine the employer and member contribution rates for the 2010/2011 fiscal year.

This method produces a component of the cash funding contribution rates. For the Fire Department, we have to add in the incremental rates required to reflect the first year of the 5-year phase-in to fully prefund the entire cost of the medical and dental programs. For the Police Department, we have to add in the incremental rates required to reflect the third year of the 5-year phase-in to fully prefund the entire cost of the medical and dental programs.

First Step: 10-Year Cashflows Funding Requirement

Based on the cashflows projected as of June 30, 2010, we have summarized in the enclosed Exhibits II and V the contribution rates under the 10-year cashflow policy. This method provides the initial rates required to calculate the final rates for the Fire and Police Departments, respectively, as discussed above.

Second Step: 5-Year Phase-in of the Full Prefunding Requirement

For Fire employees, we have determined the rates for the first year of the phase-in from the 10-year cash flow methodology to full prefunding, based on The City of San Jose and San Jose Fire Fighters, Local 230 Tentative Agreement, dated March 3, 2011.

For Police employees, we have determined the rates for the third year of the phase-in from the 10-year cash flow methodology to full prefunding, based on the Memorandum of Understanding between The City of San Jose and the San Jose Police Officers' Association (SJPOA), as documented in correspondence from the City to the Retirement System, dated March 23, 2009.

The basis for the prefunding is:

- Entry Age Normal funding method,
- 30-year closed amortization period for determining the UAAL contribution rate
 - commencing with the 2011/2012 fiscal year for Fire,
 - commencing with the 2009/2010 fiscal year for Police,
- Discount rate of 7.75%, used for a fully funded plan,
- No reflection of implicit subsidy in the costs,
- The Medical cost is allocated 50%/50% between the City and Member, and
- The Dental cost is allocated 75%/25% between the City and Member

The enclosed Exhibits III, IV, VI and VII show the process used in adjusting the full prefunding rates to the partial phase-in rates using the contribution based method and the liability based method to allocate the assets of the medical and dental plans between the Fire and Police Departments as of June 30, 2009.

Calculate the Full Prefunding Rate

In items A and B of Exhibits III, IV, VI and VII, we show the actuarial accrued liability, the actuarial value of assets, normal cost, amortization of the unfunded actuarial accrued liability, and the development of the full prefunding rate both before and after the adjustment to reflect the additional cost associated with the partial prefunding during the 5-year phase-in period.

Initial Rate Reflecting 20% Phase-In of Full Prefunding for Fire

The contribution rates based on full prefunding are then combined with the contribution rates developed in Exhibit II to get a weighted average rate. For the 2011/2012 fiscal year, the full prefunding rate is weighted 20% and the 10-year cashflow rate is weighted 80%.

Reflect Caps on Increases In Prior Year Contribution Rates for Fire

The 2011/2012 fiscal year rates may not exceed the 2010/2011 fiscal year rates by 1.35% for the City and 1.25% for the Member. The 2010/2011 fiscal year rates, as adopted at the March 4 2010 Board meeting, are 3.92% for the City and 3.61% for the Member. Therefore, the 2011/2012 rates are limited to 5.27% and 4.86% for the City and the Member, respectively. When we compare the initial phase-in rates against the caps, we find that for the 2011/2012 fiscal year, the caps *do apply* under both the contribution based and liability based methods.

Please note that in deriving the final medical and dental rates after the caps have been applied to the City and Member, we have applied the ratio of the total capped to the total non-capped rates to the medical and dental rates developed in Item C of Exhibits III and IV. While it is possible to derive alternative final medical and dental rates, the method we use in the report as well as other alternative methods would no longer preserve the 50%/50% and 75%/25% cost sharing between employer and the member, for the medical and dental programs, respectively.

A summary of the projected rates during the 5-year phase-in period, assuming all the actuarial assumptions included in this letter would be met, is also provided in Item E. There is an increase in the ultimate cost at the end of the 5-year phase-in of about 2.0% of payroll relative to the rate were the full prefunding rate be paid for the 2011/2012 fiscal year. The difference reflects amortized impact from the shortfall of phased-in contributions from the full rate during the remainder of the phase-in period.

Initial Rate Reflecting 60% Phase-In of Full Prefunding for Police

The contribution rates based on full prefunding are then combined with the contribution rates developed in Exhibit V to get a weighted average rate. For the 2011/2012 fiscal year, the full prefunding rate is weighted 60% and the 10-year cashflow rate is weighted 40%.

Reflect Caps on Increases In Prior Year Contribution Rates for Police

The 2011/2012 fiscal year rates may not exceed the 2010/2011 fiscal year rates by 1.35% for the City and 1.25% for the Member. The 2010/2011 fiscal year rates, as adopted at the March 4 2010 Board meeting, are 6.26% for the City and 5.76% for the Member. Therefore, the 2011/2012 rates are limited to 7.61% and 7.01% for the City and the Member, respectively. When we compare the initial phase-in rates against the caps, we find that for the 2011/2012 fiscal year, the caps *do apply* under both the contribution based and liability based methods.

Please note that in deriving the final medical and dental rates after the caps have been applied to the City and Member, we have applied the ratio of the total capped to the total non-capped rates to the medical and dental rates developed in Item C of Exhibits VI and VII. While it is possible to derive alternative final medical and dental rates, the method we use in the report as well as other alternative methods would no longer preserve the 50%/50% and 75%/25% cost sharing between employer and the member, for the medical and dental programs, respectively.

A summary of the projected rates during the 5-year phase-in period, assuming all the actuarial assumptions included in this letter would be met, is also provided in Item E. There is an increase in the ultimate cost at the end of the 5-year phase-in of about 1.1% of payroll relative to the rate were the full prefunding rate be paid for the 2011/2012 fiscal year. The difference reflects amortized impact from the shortfall of phased-in contributions from the full rate during the remainder of the phase-in period.

Discussion of Results for Fire and Police

For the Fire Department, the increase in rates (as percentage of payroll) from the prior valuation can mainly be attributed to the following factors: 1) the increase in health care trend assumption used to project future subsidy payments and 2) the decrease in projected payroll over which to fund the medical and dental benefits. The decrease in discount rate (from 8.00% to 7.75%) does not impact Fire as much as Police because only 20% of the prefunding amounts have been recognized.

The factors increasing costs for Fire also apply to Police. For the prefunded portion, the decrease in discount rate has a much bigger impact in increasing the liability and normal cost used to set the contribution rates on a 60% prefunded basis when compared to the 10-year cashflow funding basis.

Other Considerations in Developing the Contribution Requirements

Similar to the discussions included in our report dated December 22, 2010 for the Pension Plan only, under the current actuarial procedure used by the Board, the contribution rates under the fully prefunded basis for the Medical and Dental plan are developed by taking the total of the dollar Normal Cost and the dollar amount required to amortize the UAAL for the year immediately following the date of the valuation and expressing that contribution amount as a percent of projected payroll over that same period. If actual payroll is less than projected, then the actual dollar amount of UAAL amortization contributions will be less than

the amount required in the valuation. This will cause a contribution loss and will result in an increase in the total cash contribution rate for the next year. The Plan's staff has requested Segal to comment of a proposed change to the current actuarial procedure to mitigate the contribution loss from a decline in the actual payroll. A discussion of that proposed methodology is provided in Exhibit XI.

Summary of Contribution Rates for 2011/2012 Fiscal Year

The results for the funding valuation are summarized below:

Contribution Based Method			
	June 30, 2010 Valuations (% of pay)		
	Fire	Police	Combined
Medical			
City	4.58%	6.66%	5.89%
Member	4.63%	6.69%	5.92%
Total	9.21%	13.35%	11.81%
Dental			
City	0.69%	0.95%	0.85%
Member	0.23%	0.32%	0.29%
Total	0.92%	1.27%	1.14%
Medical and Dental			
City	5.27%	7.61%	6.74%
Member	4.86%	7.01%	6.21%
Total	10.13%	14.62%	12.95%

Total projected compensation is \$251,058,473 as of June 30, 2010:

\$93,453,215 for Fire and \$157,605,258 for Police.

Liability Based Method			
	June 30, 2010 Valuations (% of pay)		
	Fire	Police	Combined
Medical			
City	4.58%	6.66%	5.89%
Member	4.63%	6.69%	5.92%
Total	9.21%	13.35%	11.81%
Dental			
City	0.69%	0.95%	0.85%
Member	0.23%	0.32%	0.29%
Total	0.92%	1.27%	1.14%
Medical and Dental			
City	5.27%	7.61%	6.74%
Member	4.86%	7.01%	6.21%
Total	10.13%	14.62%	12.95%

Total projected compensation is \$251,058,473 as of June 30, 2010:

\$93,453,215 for Fire and \$157,605,258 for Police.

Summary of Contribution Amounts – 2011/2012 Fiscal Year Rates Applied to Projected Compensation as of June 30, 2010

The results for the funding valuation are summarized below:


Contribution Based Method			
	June 30, 2010 Valuations		
	Fire	Police	Combined
Medical			
City	\$4,280,157	\$10,496,510	\$14,776,667
Member	4,326,884	10,543,792	14,870,676
Total	8,607,041	21,040,302	29,647,343
Dental			
City	\$644,827	\$1,497,250	\$2,142,077
Member	214,942	504,337	719,279
Total	859,769	2,001,587	2,861,356
Medical and Dental			
City	\$4,924,984	\$11,993,760	\$16,918,744
Member	4,541,826	11,048,129	15,589,955
Total	9,466,810	23,041,889	32,508,699
Total projected compensation is \$251,058,473 as of June 30, 2010: \$93,453,215 for Fire and \$157,605,258 for Police.			

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	Fire	Police	Combined
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Total	9,466,810	23,041,889	32,508,699
Total projected compensation is \$251,058,473 as of June 30, 2010: \$93,453,215 for Fire and \$157,605,258 for Police.			

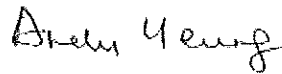
The results shown in this report have been certified by Andy Yeung, ASA, EA, MAAA and Patrick Twomey, ASA, MAAA. The certifying actuaries are Members of the Society of Actuaries, the American Academy of Actuaries and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

If you have any questions, please let us know.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Associate Actuary

TXB/kek
Enclosures

EXHIBIT I

**Allocation of the Actuarial and Market Value of Assets
for the Medical and Dental Plans
Between Police and Fire Members as of June 30, 2010
(\$000s)**

Using Contribution Rate Based Method to Split Assets as of June 30, 2009

<u>Medical Plan*</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Actuarial Value of Assets	\$26,112	\$26,616	\$52,728
Market Value of Assets	22,650	23,088	45,738
<u>Dental Plan*</u>			
Actuarial Value of Assets	2,901	2,958	5,859
Market Value of Assets	2,517	2,565	5,082
<u>Total</u>			
Actuarial Value of Assets	29,013	29,573	58,586
Market Value of Assets	\$25,167	\$25,653	\$50,820

Using Liability Based Method to Split Assets as of June 30, 2009

<u>Medical Plan*</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Actuarial Value of Assets	\$33,932	\$18,796	\$52,728
Market Value of Assets	29,433	16,305	45,738
<u>Dental Plan*</u>			
Actuarial Value of Assets	3,770	2,089	5,859
Market Value of Assets	3,270	1,812	5,082
<u>Total</u>			
Actuarial Value of Assets	37,702	20,885	58,586
Market Value of Assets	\$32,704	\$18,116	\$50,820

Amounts may not add to totals due to rounding.

** As directed by the Department of Retirement Services, we have allocated 90% of total assets to the Medical Plan and 10% of total assets to the Dental Plan.*

DEVELOPMENT OF CONTRIBUTION RATES FOR FIRE

EXHIBIT II - 10 Year Cash Flow Requirement for Fire Department
(Before Reflecting 5-Year Phase-In)

A. Determination of Contribution Rates for the Medical and Dental Programs as of June 30, 2010 Valuation

Fiscal year Beginning July 1	Projected Cashflows and Payroll		
	Medical Only	Dental Only	Total
2010	\$8,855,114	\$1,028,662	\$9,883,776
2011	9,689,109	1,092,576	10,781,685
2012	10,669,318	1,161,724	11,831,042
2013	11,679,351	1,233,788	12,913,139
2014	12,762,314	1,312,863	14,075,177
2015	13,889,377	1,396,915	15,286,292
2016	15,084,621	1,487,422	16,572,043
2017	16,327,848	1,584,277	17,912,125
2018	17,553,869	1,685,210	19,239,079
2019	18,824,231	1,794,264	20,618,495
			<u>Projected Payroll</u>
			\$93,453,215
			97,424,977
			101,565,538
			105,882,074
			110,382,062
			115,073,299
			119,963,914
			125,062,381
			130,377,532
			135,918,577

Present Value As of June 30, 2010 \$90,559,000 \$9,344,000 \$99,903,000 \$779,474,000

Development of Contribution Rate With Assets Allocated to Fire Using Contribution Based Method

Assets As of June 30, 2010	\$26,615,785	\$2,957,309	\$29,573,094
Unfunded Present Value of Benefits As of June 30, 2010	63,943,215	6,386,691	70,329,906
Present Value of 10-Year Future Payroll As of June 30, 2010	\$779,474,000	\$779,474,000	\$779,474,000
Total Contribution Rate	8.20%	0.82%	9.02%
City Contribution Rate	4.10%	0.62%	4.72%
Member Contribution Rate	4.10%	0.20%	4.30%

Development of Contribution Rate With Assets Allocated to Fire Using Liability Based Method

Assets As of June 30, 2010	\$18,796,376	\$2,088,486	\$20,884,862
Unfunded Present Value of Benefits As of June 30, 2010	71,762,624	7,255,514	79,018,138
Present Value of 10-Year Future Payroll As of June 30, 2010	\$779,474,000	\$779,474,000	\$779,474,000
Total Contribution Rate	9.21%	0.93%	10.14%
City Contribution Rate	4.61%	0.70%	5.31%
Member Contribution Rate	4.60%	0.23%	4.83%

**Exhibit III – Full Prefunding Requirement for Fire Department
Assets Allocated to Fire Using Contribution Based Method**

A. Entry Age Normal Funding Method Calculated Using 7.75% Discount Rate for Fire

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
Actives	\$76,821,777	\$6,931,518	\$83,753,295
Retirees	148,579,010	16,649,104	165,228,114
Inactive Vesteds	940,134	89,511	1,029,645
Total	226,340,921	23,670,133	250,011,054
Actuarial Value of Assets	26,615,785	2,957,309	29,573,094
Unfunded Actuarial Accrued Liability (UAAL)	199,725,136	20,712,824	220,437,960
Amortization of UAAL	10,319,599	1,070,211	11,389,810
Normal Cost	6,246,489	566,088	6,812,577
Annual Contribution, beginning of year	16,566,088	1,636,299	18,202,387
Adjustment for timing	629,958	62,224	692,182
Annual Contribution, payable throughout fiscal year	17,196,046	1,698,523	18,894,569
Projected Payroll	\$93,453,215	\$93,453,215	\$93,453,215
Total Contribution Rate Assuming Immediate Prefunding	18.40%	1.82%	20.22%
Total Contribution Rate After Adjustment to Reflect Additional Cost Due to 5-year Phase-In	20.20%	2.00%	22.20%

B. Full Prefunding Contribution Rate Before Recognizing Phase-in

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
City Rate with Full Funding	10.10%	1.50%	11.60%
Member Rate with Full Funding	10.10%	0.50%	10.60%

C. Contribution Rates After Recognizing Phase-in

Apply Phase-In For Fire Only

Total Years of Phase-In	5	5	5
Years Into Phase-In	1	1	1

Rates Under 10 Year Cashflow (See Exhibit II)

City Rate Under 10-Year Cashflow Method	4.10%	0.62%	4.72%
Member Rate Under 10-Year Cashflow Method	4.10%	0.20%	4.30%

Amounts Reflecting Phase-In (20%/80% Weighted Average of Full Prefunding/10-year Cashflow Basis)

City Rate	5.30%	0.80%	6.10%
Member Rate	5.30%	0.26%	5.56%
Total Rate	10.60%	1.06%	11.66%

Apply Cap on Increases from Prior Years

Annual Cap for City Rate Increase for Fire	1.35% ⁽¹⁾
City Rate for Fire Adopted by Board for 2010/2011 Fiscal Year	3.92% ⁽²⁾
Current Year Capped City Rate for Fire	5.27%
Annual Cap for Member Rate Increase for Fire	1.25% ⁽¹⁾
Member Rate for Fire Adopted by Board for 2010/2011 Fiscal Year	3.61% ⁽²⁾
Current Year Capped Member Rate for Fire	4.86%

D. Final Contribution Rates for Fire After Reflecting the Caps

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
City Rate	4.58%	0.69%	5.27%
Member Rate	4.63%	0.23%	4.86%
Total Rate	9.21%	0.92%	10.13%

⁽¹⁾ Based on tentative agreement between the City of San Jose and San Jose Fire Fighters, Local 230, dated March 3, 2011.

⁽²⁾ Adopted at the March 4, 2010 Board meeting.

Exhibit III (Continued)

**E. Phase-in Contribution Rates to Full Prefunding Determined as of June 30, 2010
(Before Reflecting Caps on the City and the Member Rates)**

<u>Fiscal Year</u>	<u>Members</u>	<u>City</u>	<u>Total</u>
2011/2012	5.37%	5.89%	11.26%
2012/2013	6.58%	7.20%	13.78%
2013/2014	7.87%	8.61%	16.48%
2014/2015	9.23%	10.08%	19.31%
2015/2016	10.60%	11.60%	22.20%

Notes:

During the 5-year phase-in period (from 2011 to 2016), the difference between the full prefunding and the phased-in rate is added back into the next year's prefunding rate.

The implicit rate subsidy is excluded from these calculations.

**Exhibit IV – Full Prefunding Requirement for Fire Department
Assets Allocated to Fire Using Liability Based Method**

A. Entry Age Normal Funding Method Calculated Using 7.75% Discount Rate for Fire

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
Actives	\$76,821,777	\$6,931,518	\$83,753,295
Retirees	148,579,010	16,649,104	165,228,114
Inactive Vesteds	940,134	89,511	1,029,645
Total	226,340,921	23,670,133	250,011,054
Actuarial Value of Assets	18,796,377	2,088,485	20,884,862
Unfunded Actuarial Accrued Liability (UAAL)	207,544,544	21,581,648	229,126,192
Amortization of UAAL	10,723,620	1,115,102	11,838,722
Normal Cost	6,246,489	566,088	6,812,577
Annual Contribution, beginning of year	16,970,109	1,681,190	18,651,299
Adjustment for timing	645,322	63,931	709,253
Annual Contribution, payable throughout fiscal year	17,615,431	1,745,121	19,360,552
Projected Payroll	\$93,453,215	\$93,453,215	\$93,453,215
Total Contribution Rate Assuming Immediate Prefunding	18.85%	1.87%	20.72%
Total Contribution Rate After Adjustment to Reflect Additional Cost Due to 5-year Phase-In	20.62%	2.04%	22.66%

B. Full Prefunding Contribution Rate Before Recognizing Phase-in

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
City Rate with Full Funding	10.31%	1.53%	11.84%
Member Rate with Full Funding	10.31%	0.51%	10.82%

C. Contribution Rates After Recognizing Phase-in

Apply Phase-In For Fire Only

Total Years of Phase-In	5	5	5
Years Into Phase-In	1	1	1

Rates Under 10 Year Cashflow (See Exhibit II)

City Rate Under 10-Year Cashflow Method	4.61%	0.70%	5.31%
Member Rate Under 10-Year Cashflow Method	4.60%	0.23%	4.83%

Amounts Reflecting Phase-In (20%/80% Weighted Average of Full Prefunding/10-year Cashflow Basis)

City Rate	5.75%	0.87%	6.62%
Member Rate	5.74%	0.29%	6.03%
Total Rate	11.49%	1.16%	12.65%

Apply Cap on Increases from Prior Years

Annual Cap for City Rate Increase for Fire	1.35% ⁽¹⁾
City Rate for Fire Adopted by Board for 2010/2011 Fiscal Year	3.92% ⁽²⁾
Current Year Capped City Rate for Fire	5.27%
Annual Cap for Member Rate Increase for Fire	1.25% ⁽¹⁾
Member Rate for Fire Adopted by Board for 2010/2011 Fiscal Year	3.61% ⁽²⁾
Current Year Capped Member Rate for Fire	4.86%

D. Final Contribution Rates After Reflecting the Caps

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
City Rate	4.58%	0.69%	5.27%
Member Rate	4.63%	0.23%	4.86%
Total Rate	9.21%	0.92%	10.13%

⁽¹⁾ Based on tentative agreement between the City of San Jose and San Jose Fire Fighters, Local 230, dated March 3, 2011.

⁽²⁾ Adopted at the March 4, 2010 Board meeting.

Exhibit IV (Continued)

**E. Phase-in Contribution Rates to Full Prefunding Determined as of June 30, 2010
(Before Reflecting Caps on the City and the Member Rates)**

<u>Fiscal Year</u>	<u>Members</u>	<u>City</u>	<u>Total</u>
2011/2012	5.84%	6.41%	12.25%
2012/2013	6.99%	7.67%	14.66%
2013/2014	8.21%	9.01%	17.22%
2014/2015	9.50%	10.41%	19.91%
2015/2016	10.81%	11.85%	22.66%

Notes:

During the 5-year phase-in period (from 2011 to 2016), the difference between the full prefunding and the phased-in rate is added back into the next year's prefunding rate.

The implicit rate subsidy is excluded from these calculations.

DEVELOPMENT OF CONTRIBUTION RATES FOR POLICE

EXHIBIT V - 10 Year Cash Flow Requirement for Police Department

(Before Reflecting 5-Year Phase-In)

A. Determination of Contribution Rates for the Medical and Dental Programs as of June 30, 2010 Valuation

<u>Fiscal year Beginning July 1</u>	<u>Projected Cashflows and Payroll</u>		
	<u>Medical Only</u>	<u>Dental Only</u>	<u>Total</u>
2010	\$12,391,306	\$1,380,370	\$13,771,676
2011	13,699,156	1,475,748	15,174,904
2012	15,278,639	1,583,689	16,862,328
2013	16,961,738	1,701,160	18,662,898
2014	18,753,757	1,825,561	20,579,318
2015	20,769,390	1,971,233	22,740,623
2016	23,017,209	2,137,296	25,154,505
2017	25,445,423	2,321,851	27,767,274
2018	27,955,949	2,520,103	30,476,052
2019	30,594,309	2,729,990	33,324,299
			<u>Projected Payroll</u>
			\$157,605,258
			164,303,481
			171,286,379
			178,566,051
			186,155,108
			194,066,700
			202,314,535
			210,912,902
			219,876,701
			229,221,460

Present Value As of June 30, 2010

\$135,688,000 \$13,207,000 \$148,895,000 \$1,314,554,000

Development of Contribution Rate With Assets Allocated to Police Using Contribution Based Method

Assets As of June 30, 2010

\$26,111,709 \$2,901,301 \$29,013,010

Unfunded Present Value of Benefits As of June 30, 2010

109,576,291 10,305,699 119,881,990

Present Value of 10-Year Future Payroll As of June 30, 2010

\$1,314,554,000 \$1,314,554,000 \$1,314,554,000

Total Contribution Rate

8.34% 0.78% 9.12%

City Contribution Rate

4.17% 0.59% 4.76%

Member Contribution Rate

4.17% 0.19% 4.36%

Development of Contribution Rate With Assets Allocated to Police Using Liability Based Method

Assets As of June 30, 2010

\$33,931,117 \$3,770,124 \$37,701,241

Unfunded Present Value of Benefits As of June 30, 2010

101,756,883 9,436,876 111,193,759

Present Value of 10-Year Future Payroll As of June 30, 2010

\$1,314,554,000 \$1,314,554,000 \$1,314,554,000

Total Contribution Rate

7.74% 0.72% 8.46%

City Contribution Rate

3.87% 0.54% 4.41%

Member Contribution Rate

3.87% 0.18% 4.05%

**Exhibit VI – Full Prefunding Requirement for Police Department
Assets Allocated to Police Using Contribution Based Method**

A. Entry Age Normal Funding Method Calculated Using 7.75% Discount Rate for Police

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
Actives	\$154,360,917	\$13,766,686	\$168,127,603
Retirees	241,277,733	25,606,689	266,884,422
Inactive Vesteds	1,265,995	118,299	1,384,294
Total	396,904,645	39,491,674	436,396,319
Actuarial Value of Assets	\$26,111,709	\$2,901,301	\$29,013,010
Unfunded Actuarial Accrued Liability (UAAL)	370,792,936	36,590,373	407,383,309
Amortization of UAAL	19,963,571	1,970,033	21,933,604
Normal Cost	11,256,540	1,009,330	12,265,870
Annual Contribution, beginning of year	31,220,111	2,979,363	34,199,474
Adjustment for timing	1,187,206	113,296	1,300,503
Annual Contribution, payable throughout fiscal year	32,407,317	3,092,659	35,499,977
Projected Payroll	\$157,605,258	\$157,605,258	\$157,605,258
Total Contribution Rate Assuming Immediate Prefunding	20.56%	1.96%	22.52%
Total Contribution Rate After Adjustment to Reflect Additional Cost Due to 5-year Phase-In	21.56%	2.06%	23.62%

B. Full Prefunding Contribution Rate Before Recognizing Phase-in

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
City Rate with Full Funding	10.78%	1.55%	12.33%
Member Rate with Full Funding	10.78%	0.51%	11.29%

C. Contribution Rates After Recognizing Phase-in

Apply Phase-In For Police Only

Total Years of Phase-In	5	5	5
Years Into Phase-In	3	3	3

Rates Under 10 Year Cashflow (See Exhibit III)

City Rate Under 10-Year Cashflow Method	4.17%	0.59%	4.76%
Member Rate Under 10-Year Cashflow Method	4.17%	0.19%	4.36%

Amounts Reflecting Phase-In (60%/40% Weighted Average of Full Prefunding/10-year Cashflow Basis)

City Rate	8.14%	1.17%	9.31%
Member Rate	8.14%	0.38%	8.52%
Total Rate	16.28%	1.55%	17.83%

Apply Cap on Increases from Prior Years

Annual Cap for City Rate Increase for Police			1.35% ⁽¹⁾
City Rate for Police Adopted by Board for 2010/2011 Fiscal Year			6.26% ⁽²⁾
Current Year Capped City Rate for Police			7.61%
Annual Cap for Member Rate Increase for Police			1.25% ⁽¹⁾
Member Rate for Police Adopted by Board for 2010/2011 Fiscal Year			5.76% ⁽²⁾
Current Year Capped Member Rate for Police			7.01%

D. Final Contribution Rates for Police After Reflecting the Caps

City Rate	6.66%	0.95%	7.61%
Member Rate	6.69%	0.32%	7.01%
Total Rate	13.35%	1.27%	14.62%

⁽¹⁾ Based on attachment to the City's memo to Retirement System dated March 23, 2009.

⁽²⁾ Adopted at the March 4, 2010 Board meeting.

Exhibit VI (Continued)

**E. Phase-in Contribution Rates to Full Prefunding Determined as of June 30, 2010
(Before Reflecting Caps on the City and the Member Rates)**

<u>Fiscal Year</u>	<u>Members</u>	<u>City</u>	<u>Total</u>
2011/2012	8.52%	9.31%	17.83%
2012/2013	9.94%	10.78%	20.72%
2013/2014	11.29%	12.33%	23.62%

Notes:

During the 5-year phase-in period (from 2009 to 2014), the difference between the full prefunding and the phased-in rate is added back into the next year's prefunding rate.

The implicit rate subsidy is excluded from these calculations.

**Exhibit VII – Full Prefunding Requirement for Police Department
Assets Allocated to Police Using Liability Based Method**

A. Entry Age Normal Funding Method Calculated Using 7.75% Discount Rate for Police

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
Actives	\$154,360,917	\$13,766,686	\$168,127,603
Retirees	241,277,733	25,606,689	266,884,422
Inactive Vesteds	1,265,995	118,299	1,384,294
Total	396,904,645	39,491,674	436,396,319
Actuarial Value of Assets	33,931,117	3,770,124	37,701,241
Unfunded Actuarial Accrued Liability (UAAL)	362,973,527	35,721,550	398,695,077
Amortization of UAAL	19,542,572	1,923,256	21,465,828
Normal Cost	11,256,540	1,009,330	12,265,870
Annual Contribution, beginning of year	30,799,112	2,932,586	33,731,698
Adjustment for timing	1,171,197	111,517	1,282,714
Annual Contribution, payable throughout fiscal year	31,970,309	3,044,103	35,014,412
Projected Payroll	\$157,605,258	\$157,605,258	\$157,605,258
Total Contribution Rate Assuming Immediate Prefunding	20.29%	1.93%	22.22%
Total Contribution Rate After Adjustment to Reflect Additional Cost Due to 5-year Phase-In	21.25%	2.02%	23.27%

B. Full Prefunding Contribution Rate Before Recognizing Phase-in

	<u>Medical</u>	<u>Dental</u>	<u>Total</u>
City Rate with Full Funding	10.63%	1.52%	12.15%
Member Rate with Full Funding	10.62%	0.50%	11.12%

C. Contribution Rates After Recognizing Phase-in

Apply Phase-In For Police Only

Total Years of Phase-In	5	5	5
Years Into Phase-In	3	3	3

Rates Under 10 Year Cashflow (See Exhibit III)

City Rate Under 10-Year Cashflow Method	3.87%	0.54%	4.41%
Member Rate Under 10-Year Cashflow Method	3.87%	0.18%	4.05%

Amounts Reflecting Phase-In (60%/40% Weighted Average of Full Prefunding/10-year Cashflow Basis)

City Rate	7.93%	1.13%	9.06%
Member Rate	7.92%	0.37%	8.29%
Total Rate	15.85%	1.50%	17.35%

Apply Cap on Increases from Prior Years

Annual Cap for City Rate Increase for Police			1.35% ⁽¹⁾
City Rate for Police Adopted by Board for 2010/2011 Fiscal Year			6.26% ⁽²⁾
Current Year Capped City Rate for Police			7.61%
Annual Cap for Member Rate Increase for Police			1.25% ⁽¹⁾
Member Rate for Police Adopted by Board for 2010/2011 Fiscal Year			5.76% ⁽²⁾
Current Year Capped Member Rate for Police			7.01%

D. Final Contribution Rates After Reflecting the Caps

City Rate	6.66%	0.95%	7.61%
Member Rate	6.69%	0.32%	7.01%
Total Rate	13.36%	1.26%	14.62%

⁽¹⁾ Based on attachment to the City's memo to Retirement System dated March 23, 2009.

⁽²⁾ Adopted at the March 4, 2010 Board meeting.

Exhibit VII (Continued)

**E. Phase-in Contribution Rates to Full Prefunding Determined as of June 30, 2010
(Before Reflecting Caps on the City and the Member Rates)**

<u>Fiscal Year</u>	<u>Members</u>	<u>City</u>	<u>Total</u>
2011/2012	8.29%	9.06%	17.35%
2012/2013	9.75%	10.56%	20.72%
2013/2014	11.12%	12.15%	23.27%

Notes:

During the 5-year phase-in period (from 2009 to 2014), the difference between the full prefunding and the phased-in rate is added back into the next year's prefunding rate.

The implicit rate subsidy is excluded from these calculations.

EXHIBIT VIII**Actuarial Assumptions****Mortality Rates****Healthy:**

RP-2000 combined healthy mortality table (separate tables for males and females) with no collar adjustment, projected 10 years. The male table is set back four years.

Disabled:

RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back one year of age.

Termination Rates Before Retirement:

Mortality					
Age	Service-Connected		Non Service-Connected		Rate (%)
	Male	Female	Male	Female	
25	0.0149	0.0090	0.0149	0.0090	
35	0.0237	0.0213	0.0237	0.0213	
45	0.0522	0.0478	0.0522	0.0478	
55	0.1011	0.1254	0.1011	0.1254	

Service Connected Disability Rates (%)			
Age	Police	Fire	
20	0.064	0.064	
25	0.093	0.093	
30	0.134	0.134	
35	0.199	0.199	
40	0.314	0.314	
45	0.505	0.505	
50	2.138	2.138	
55	9.075	11.069	
60	15.000	20.000	

EXHIBIT VIII

Actuarial Assumptions (continued)

Turnover	
Years of Service	Rate (%)
< 1	8.00
1 - 4	1.00
5 - 9	0.50
10 +	0.40

Retirement Rates (%)*		
Age	Fire	Police
50-54	20.00	17.00
55-59	30.00	17.00
60-64	50.00	17.00
65-69	50.00	35.00
70	100.00	100.00

* Applied to active members eligible for unreduced pension benefits.

Retirement Age and Benefit for Deferred Vested Members: For current deferred vested members, the retirement assumption is age 55. It is assumed that 75% of deferred vested members work for a reciprocal employer.

Future Benefit Accruals: 1.0 year of service per year.

Inclusion of Deferred Vested Members: No deferred vested members are included in the valuation.

Percent Electing Spouse Coverage: 85%

Age of Spouse: Wives are 3 years younger than their husbands.

Future Retiree Medical Enrollment: 95% of future eligible retirees are assumed to elect retiree medical and dental coverage.

EXHIBIT VIII**Actuarial Assumptions (continued)**

Net Investment Return: 7.75%, net of administration and investment expenses.

Consumer Price Index: Increase of 3.50% per year.

Salary Increases:

Annual Rate of Compensation Increase

Inflation: 3.50% per year;
plus 0.75% real across-the-board salary increase;
plus the following Merit and Promotion increases based on
completed years of service.

Years of Service	Annual Increase
0 - 5	5.50%
6 - 7	2.50
8 +	1.75

Dental Premium:

\$111.48 per month for calendar year 2010 and \$108.62 per month for calendar year 2011, for a \$110.05 monthly 2010/2011 fiscal year premium. The premium is the same for single or married coverage.

Medicare Part B Premium:

The Medicare Part B premium is \$96.40 per month in 2010 and 2011, before means testing.

EXHIBIT VIII**Actuarial Assumptions (continued)****MEDICAL TRENDS FOR JUNE 30, 2010 VALUATION**

Trends to be applied in following fiscal years, to all health plans.

Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium

First Fiscal Year (July 1, 2010 through June 30, 2011)

PLAN	Blue Shield PPO/POS, Under Age 65	Blue Shield PPO/POS, Age 65 and Over	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Blue Shield HMO, All Ages
Trend to be applied to 2010-2011 Fiscal Year premium	7.11%	7.11%	9.50%	9.04%	7.11%

The fiscal year trend rates are based on the following calendar year trend rates:		
Fiscal Year	Trend (Approximate)	Calendar Year
2011-2012	9.75%	2011
2012-2013	9.25%	2012
2013-2014	8.75%	2013
2014-2015	8.25%	2014
2015-2016	7.75%	2015
2016-2017	7.25%	2016
2017-2018	6.75%	2017
2018-2019	6.25%	2018
2019-2020	5.75%	2019
2020-2021	5.25%	2020
2021-2022 and later	5.00%	2021 and later

Dental Premium Trend

5.00% for all years

Medicare Part B
Premium Trend

The 2011-2012 fiscal year premium is assumed to increase 2.5% from the 2010-2011 fiscal year premium (based on the calendar year premium for 2011 remaining unchanged from 2010). Premiums after 2011-2012 are assumed to increase with 5% annual trend.

EXHIBIT VIII

Actuarial Assumptions (continued)

Per Capita Costs and Carrier Election Assumption Under Age 65

2010 Calendar Year

CARRIER

Kaiser

Blue PPO/POS

Blue Shield HMO

Single Party		Married/with Domestic Partner		Surviving Spouse/Domestic Partner	
Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy
\$484.06	\$484.06	\$1,205.20	\$1,205.20	\$484.06	\$484.06
\$750.02	\$484.06	\$1,927.48	\$1,205.20	\$750.02	\$484.06
\$540.20	\$484.06	\$1,387.72	\$1,205.20	\$540.20	\$484.06

2011 Calendar Year

CARRIER

Kaiser

Blue PPO/POS

Blue Shield HMO

Single Party		Married/with Domestic Partner		Surviving Spouse/Domestic Partner	
Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy
\$527.38	\$496.04	\$1,313.18	\$1,235.16	\$527.38	\$496.04
\$780.84	\$496.04	\$2,006.70	\$1,235.16	\$780.84	\$496.04
\$562.40	\$496.04	\$1,444.76	\$1,235.16	\$562.40	\$496.04

2010-2011 Fiscal year

CARRIER

CARRIER	Election Percent		Used in Valuation
	Observed		
Kaiser	50.1		50
Blue PPO/POS	25.8		25
Blue Shield HMO	24.1		25

Single Party		Married/with Domestic Partner		Surviving Spouse/Domestic Partner	
Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy
\$505.72	\$490.05	\$1,259.19	\$1,220.18	\$505.72	\$490.05
\$765.43	\$490.05	\$1,967.09	\$1,220.18	\$765.43	\$490.05
\$551.30	\$490.05	\$1,416.24	\$1,220.18	\$551.30	\$490.05

All Plans shown have a \$10 co-pay, as the \$25 co-pay plans were not available as of the June 30, 2010 census date. We note that the subsidy limits for calendar year 2011 are set equal to the premiums for the Kaiser Plans with \$25 co-pay. In this valuation we will assume that future retirees will not switch from the \$10 co-pay plans to the \$25 co-pay plans because in practice even if some retirees were to switch to the plans with the \$25 co-pay, there is no change in the subsidy amount they would be able to receive from the City of San Jose Police and Fire Department Medical Insurance Program.

EXHIBIT VIII

Actuarial Assumptions (continued)

Per Capita Cost and Carrier Election Assumption Age 65 and Older

2010 Calendar Year

CARRIER

CARRIER	Single Party		Married/with Domestic Partner		Surviving Spouse/Domestic Partner	
	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy
Kaiser Senior Advantage	\$429.78	\$484.06	\$859.56	\$1,205.20	\$429.78	\$484.06
Blue Shield PPO/POS	\$582.86	\$484.06	\$1,165.22	\$1,205.20	\$582.86	\$484.06
Blue Shield HMO	\$412.46	\$484.06	\$824.92	\$1,205.20	\$412.46	\$484.06
PacificCare	\$395.48	\$484.06	\$790.96	\$1,205.20	\$395.48	\$484.06

Kaiser Senior Advantage
Blue Shield PPO/POS
Blue Shield HMO
PacificCare

2011 Calendar Year

CARRIER

CARRIER	Single Party		Married/with Domestic Partner		Surviving Spouse/Domestic Partner	
	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy
Kaiser Senior Advantage	\$464.16	\$496.04	\$928.32	\$1,235.16	\$464.16	\$496.04
Blue Shield PPO/POS	\$606.82	\$496.04	\$1,213.64	\$1,235.16	\$606.82	\$496.04
Blue Shield HMO	\$429.41	\$496.04	\$858.82	\$1,235.16	\$432.40	\$496.04
PacificCare	\$432.40	\$496.04	\$864.80	\$1,235.16	\$432.40	\$496.04

Kaiser Senior Advantage
Blue Shield PPO/POS
Blue Shield HMO
PacificCare

2010-2011 Fiscal year

Election Percent

CARRIER	Observed	Recommended For Valuation
	Percent	Percent
Kaiser Senior Advantage	34.1	35
Blue Shield PPO/POS	57.9	60
Blue Shield HMO	5.7	5
PacificCare	2.3	0

CARRIER	Single Party		Married/with Domestic Partner		Surviving Spouse/Domestic Partner	
	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy	Monthly Premium	Maximum Subsidy
Kaiser Senior Advantage	\$446.97	\$490.05	\$893.94	\$1,220.18	\$446.97	\$490.05
Blue Shield PPO/POS	\$594.84	\$490.05	\$1,189.68	\$1,220.18	\$594.84	\$490.05
Blue Shield HMO	\$420.94	\$490.05	\$841.87	\$1,220.18	\$420.94	\$490.05
PacificCare	\$413.94	\$490.05	\$827.88	\$1,220.18	\$413.94	\$490.05

* Any excess of the maximum subsidy over the premium can be applied toward the Medicare Part B premium. The Medicare Part B premium is \$96.40 per month in 2010 and 2011, before means testing.

EXHIBIT IX

Summary of Plan

This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plan as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

Eligibility:

Retired for disability or service from active service with 15 years of service, or receiving a benefit of at least 37.5% of FAS. Also, if a member separates from service after July 5, 1992, with 20 years of service leaving contributions in the retirement plan until the member applies for retirement benefits.

Benefit Types:

Medical Plan Choices

Kaiser, BlueShield and PacifiCare

Dental Plan

Delta Dental and Enhanced Delta Dental

Medical Premiums

For retirees not eligible for Medicare, the Plan pays the lowest non-Medicare HMO premium rate. For retirees eligible for Medicare, the Plan pays the retiree's HMO premium plus the Medicare Part B premium, subject to the same maximums that apply to non-Medicare retirees. For the 2010-2011 fiscal year, the maximum subsidy is \$490.05 for a single member and \$1,220.18 for member with spouse or domestic partner.

Dental Premiums

The Plan pays the entire premium.

Benefit

The same medical and dental coverage that the City provides an active member.

Active Plan Funding :

Fire

(Based on Cash Flow Requirement for the Next Ten Years):

Employee's Contribution

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on the cash flow requirement for the next ten years.

City's Contribution

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on the cash flow requirement for the next ten years.

EXHIBIT IX**Summary of Plan (continued)**

Police*Employee's Contribution*

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2011-2012 fiscal year, the contribution rate is based on 60% of the full prefunding rate and 40% of the 10-year cash flow requirement rate.

City's Contribution

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2011-2012 fiscal year, the contribution rate is based on 60% of the full prefunding rate and 40% of the 10-year cash flow requirement rate.

Fire*Employee's Contribution*

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2011-2012 fiscal year, the contribution rate is based on 20% of the full prefunding rate and 80% of the 10-year cash flow requirement rate.

City's Contribution

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on: 1) 7.75% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2011-2012 fiscal year, the contribution rate is based on 20% of the full prefunding rate and 80% of the 10-year cash flow requirement rate.

EXHIBIT X

Funding Methodology

This exhibit summarizes the Plan's funding methods.

**Actuarial Basis for
Partial Prefunding:****Aggregate Cost Method**

Contributions plus current assets would be sufficient to pay benefits over the next 10 years.

Actuarial Basis for Full Prefunding*Actuarial cost method*

Entry age normal, level percent of pay

Amortization method

30-year closed (decreasing) amortization period, level percent of pay

Remaining amortization periods

For Police: 28 years used in setting rate for 2011/2012 fiscal year

For Fire: 30 years used in setting rate for 2011/2012 fiscal year

Actuarial Value of Assets:

In developing the total actuarial value of assets for the pension and health plans, we have adjusted the market value of assets (MVA) by smoothing the market returns that were either below or above the assumed rate of return (8.00% prior to July 1, 2010, and 7.75% for plan years after that date) over the last five years. The Board's methodology includes an adjustment to the smoothed actuarial value of assets if it fell outside the range of 80% to 120% of the market value of assets (also commonly referred to as the "market value corridor"). The adjustment would be the amount necessary to keep the smoothed actuarial value of assets within the corridor.

EXHIBIT XI

Possible Change in the Current Actuarial Procedure Used in Determining the Total Cash Contribution

Under the current actuarial procedure used by the Plan in developing the contribution rates under the fully prefunded basis, the total cash contribution is developed by taking the total of the dollar Normal Cost and the dollar amount required to amortize the UAAL for the year that starts immediately following the date of the valuation and expressing that as a percent of projected payroll over the same period.

The Plan's contribution rates are expected to go up in each of the next several valuations to recognize prior deferred investment losses under the asset smoothing method, the Plan is expected to incur additional contribution losses due to the one year delay between the rate calculation and the rate implementation.

Another factor that may give rise to additional contribution losses is when the City's actual payroll during the fiscal year of rate implementation is less than that anticipated by the valuation. In the course of preparing the Pension valuation, we had several discussions with the Plan's staff on methodologies that may be considered by the Board in managing this source of contribution loss. These discussions can be extended to a certain degree to the funding of the Medical and Dental plan under the fully prefunded basis. In particular, to address the possibility of declining City payroll, the Plan's staff has asked us to comment on a possible change in the current procedure which would set cash contribution amounts for 2011/2012 based on the greater of:

1. Contribution rate determined in the June 30, 2010 valuation times the actual payroll for the 2011/2012 fiscal year, or
2. Dollar amount of annual required contributions calculated in the June 30, 2010 valuation based on dollar Normal Cost and dollar amount required to amortize the UAAL for the year that starts immediately following the date of the valuation (i.e., 2010/2011).

We believe that proposal would mitigate some of the underpayment of UAAL contributions when there is a decline in the City's payroll. The higher dollar contributions that would be collected on the Normal Cost even when there is a decline in the City's payroll would also be available as an additional payment towards the UAAL. As the proposed procedure is relatively easy to administer, especially if the City continues with its practice from the last several years to prepay its contributions for the fiscal year, we are in agreement with the Plan's staff that it is one of the steps that may be considered by the Board in controlling the growth of the UAAL.

While the City's contribution amount may be set in this manner, it does bring up the possibility that in the long term the Board may no longer be able to maintain the 50%/50% and 75%/25% allocations of the cost for the Medical and Dental plans between the City and the members. This is not an issue for the Pension valuation as the cost to amortize the UAAL is paid for entirely by the City. For this reason, we would recommend that the Board review whether this change in procedure is consistent with the above cost sharing arrangements before proceeding with Staff's proposal.